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110 STAT. 1800 PUBLIC LAW 104-188—AUG. 20, 1996

26 USC 72 note. (e) EFFECTIVE DATE.—The amendments made by this section

shall apply to taxable years beginning after December 31, 1996.

SEC. 1422. EXTENSION OF SIMPLE PLAN TO 401(k) ARRANGEMENTS.

(a) ALTERNATIVE METHOD OF SATISFYING SECTION 401(k) NON-DISCRIMINATION TESTS.—Section 401(k) (relating to cash or deferred arrangements) is amended by adding at the end the following new paragraph:

"(11) ADOPTION OF SIMPLE PLAN TO MEET NONDISCRIMINATION TESTS.—

"(A) IN GENERAL.—A cash or deferred arrangement maintained by an eligible employer shall be treated as meeting the requirements of paragraph (3)(A)(ii) if such arrangement meets—

"(i) the contribution requirements of subparagraph (B),

"(ii) the exclusive plan requirements of subparagraph (C), and

"(iii) the vesting requirements of section 408(n)(3).

"(B) CONTRIBUTION REQUIREMENTS.—(i) IN GENERAL.—The requirements of this subparagraph are met if, under the arrangement—

"(I) an employee may elect to have the employer make elective contributions for the year on behalf of the employee to a trust under the plan in an amount which is expressed as a percentage of compensation of the employee but which in no event exceeds \$6,000.

"(II) the employer is required to make a matching contribution to the trust for the year in an amount equal to so much of the amount the employee elects under subclause (I) as does not exceed 3 percent of compensation for the year, and

"(III) no other contributions may be made other than contributions described in subclause (I) or (II).

"(ii) EMPLOYER MAY ELECT 2-PERCENT NONREFLECTIVE CONTRIBUTION.—An employer shall be treated as meeting the requirements of clause (i)(II) for any year if,

in lieu of the contributions described in such clause. the employer elects (pursuant to the terms of the arrangement) to make nonelective contributions of 2 percent of compensation for each employee who is eligible to participate in the arrangement and who has at least \$5,000 of compensation from the employer for the year. If an employer makes an election under this subparagraph for any year, the employer shall notify employees of such election within a reasonable period of time before the 60th day before the beginning of such year.

"(C)

EXCLUSIVE  
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T — The requirements of this subparagraph are met for any year to which this paragraph applies if no contribution was made, or benefits were accrued, for services during such year under any qualified

plan of the employer on behalf of any employee eligible to participate in the cash or deferred